

Letter Report: Our Experience in Asking the Internal Revenue Service Tax Law Questions on Its Toll-Free System Was Not Satisfactory

This is Part 2 of report 2001-40-106. Appendix VII is in Part 3. The report is in Part I.
Appendix VI

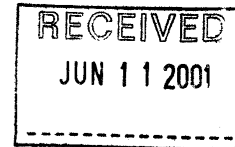
Management's Response to the Draft Report



COMMISSIONER

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

June 7, 2001



MEMORANDUM FOR DAVID C. WILLIAMS
TREASURY INSPECTOR GENERAL FOR
TAX ADMINISTRATION

FROM:

Charles O. Rossotti
Commissioner of Internal Revenue

A handwritten signature in dark ink, appearing to read "C. Rossotti", written over the printed name of the Commissioner.

SUBJECT:

Response to Draft TIGTA Letter Report: "Our Experience in Asking the Internal Revenue Service Tax Law Questions On Its Toll-Free System Was Not Satisfactory"

Summary

After careful review of TIGTA's audit report on the IRS's response to tax law questions over its toll-free telephone lines, I conclude that it does not accurately portray the quality of service the IRS furnished to seven million taxpayers during the 2001 filing season. The audit's methodology is seriously flawed, and, therefore, the findings are often misleading.

The IRS is the first to recognize that there is room for improvement in helping taxpayers understand and cope with a very difficult and complex Tax Code. We are making major changes in organization, management, training and technology to enhance the ability of taxpayers to get through on our toll-free telephones lines and receive a prompt, courteous, and accurate response to their tax law questions. However, if the IRS is to improve telephone service, it must be able to measure accurately both quality and trends.

In 1999, the IRS abandoned using hypothetical questions to measure service in favor of monitoring how well we answered real tax law questions from taxpayers. We discarded the hypothetical technique because we came to realize that it was unreliable in measuring quality and nearly useless in our real goal, which is to improve quality.

The IRS now has in place a statistically valid system that samples real taxpayer calls. It is a reliable indicator of the experience of millions of taxpayers versus TIGTA's small sample of test calls. The data collected by our telephone management information system during the 2001 filing season shows that the assistor correct-response rate for tax law questions was 78 percent.

Obviously, the IRS quality measure demonstrates the need for continued improvement; 22 percent of taxpayers still did not receive correct responses to their tax law questions. However, this is markedly different from what TIGTA reports. The TIGTA audit states that 47 percent of taxpayers did not get an "appropriate" response. (In its April 3, 2001,

Letter Report: Our Experience in Asking the Internal Revenue Service Tax Law Questions on Its Toll-Free System Was Not Satisfactory

2

testimony before the House Ways and Means Subcommittee on Oversight, TIGTA stated that "when successful in getting through, IRS incorrectly responded to 47 percent of the questions.")

The TIGTA audit provides no reliable basis for making this statement because the TIGTA sample was statistically unreliable and the selection of eight hypothetical questions was not and could not be representative of the questions that taxpayers actually ask.

Equally significant, TIGTA's audit provides little information to enable IRS to improve its telephone service. That is because TIGTA does not provide measurements of what our service is designed to do – namely answer questions that taxpayers ask – nor does it provide useful evaluations of the changes we are making to improve service.

Therefore, publishing quantitative results from this audit does not give the public and Congress an accurate representation of the answers received by taxpayers, while also failing to assist the IRS in actually improving service to taxpayers.

Since telephone service is a critical program, I hope TIGTA and the IRS can work together on an audit methodology that will accurately reflect the real problems confronting the program and will assist in improving it. I believe the obvious way to accomplish this is for TIGTA to audit our method of measuring the quality and accuracy of actual taxpayer calls and point out ways for improvement. We would be most receptive to this type of assistance, and believe it could greatly benefit our performance and service to taxpayers.

Methodology

The following is a more detailed analysis of the methodology and results of the TIGTA audit. In particular, I want to discuss two key points: the validity of the sample; and the questions/fact scenarios TIGTA created.

First, TIGTA notes in its report that "because of the limited number of calls we made, our results are not statistically valid but do provide an indication (*emphasis added*) of the quality of service being provided by the IRS on its toll-free telephone system."

TIGTA is correct that the sample was statistically unreliable. The sample was too small and conducted over too short a time period to be statistically significant or meaningful. TIGTA rated 182 calls over one four-day period at the beginning of the filing season. During the 90 days of the filing season, taxpayers made 8.3 million tax law calls.

The times TIGTA auditors chose to make their calls to the IRS also did not accurately represent the time most taxpayers call the IRS. For example, approximately 20 percent of the TIGTA calls were made on Sunday; while only 4.6 percent of actual taxpayer calls are made on that day. In fact, this could have led to a higher error rate as the IRS has less experienced operators working on Sundays.

Letter Report: Our Experience in Asking the Internal Revenue Service Tax Law Questions on Its Toll-Free System Was Not Satisfactory

Under the collective bargaining agreements with our union, assistors with seniority have greater flexibility in choosing their tours of duty; few choose Sundays. However, we would have found it extremely helpful to learn if this factor causes lower case quality, and, more importantly, what we should do about it. The TIGTA report did not provide this information. Indeed, to be valid statistically, the sample would have to be both large enough and distributed properly to represent times of day, days of the week, and months during the entire filing season period.

Therefore, based on a purely statistical basis, one cannot draw any quantitative conclusion from the TIGTA audit. Unfortunately, when TIGTA testified at the Ways and Means hearing, members of Congress understandably misinterpreted these results as being representative of the IRS's correct response rate to taxpayer questions.

The statistical unreliability of the sample is, however, the lesser of the two major reasons that the TIGTA report is not valid. Even more to the point is the fact that hypothetical questions cannot provide a valid means of quantifying the fraction of tax law calls answered correctly by IRS assistors. This is because there is no basis for knowing if the questions selected and formulated are representative of the nature and mix of questions actually asked by taxpayers.

The IRS' telephone service is geared to answering "real" taxpayer questions, not hypothetical questions that may be at the margins of those that could be asked. Because of the enormous range of possible tax law questions and factual scenarios, it is impossible to construct a small number of questions that reasonably reflect real taxpayer questions. TIGTA's audit consisted only of ten questions, eight of which were asked of telephone assistors.

TIGTA states in its report that "to accomplish this review, we judgmentally (*emphasis added*) selected 10 tax law questions asked by Wage and Investment taxpayers. We identified these questions by researching the IRS's list of 'Frequently Asked Questions' published on its Internet web site."

TIGTA accurately states that the questions were determined "judgmentally" – meaning there was no empirical basis for their being used as a test. There are nearly 800 questions on the web site and there is no given reason why any 10 would be representative.

Of even greater significance, the TIGTA questions were not "selected" *per se* from the IRS web site. These are not the actual questions on the IRS's web site. In fact, TIGTA picked general topics from the web site and then created its own complex fact scenarios. This is a very important distinction.

While the general questions may have been loosely adapted from questions on the web site, TIGTA constructed the fact scenarios, which are the critical essence of the questions, on an entirely hypothetical basis. We have no reason to believe these

Letter Report: Our Experience in Asking the Internal Revenue Service Tax Law Questions on Its Toll-Free System Was Not Satisfactory

hypothetical fact scenarios are representative of typical taxpayer questions. Indeed, some of these fact scenarios raise extremely complex tax law issues and in some cases, the "facts" are insufficient to answer the question correctly.

These complex hypothetical scenarios had a major impact as indicated by the fact that only three of the questions accounted for 55 percent of all of the answers considered incorrect by TIGTA in its audit. The following is an analysis of these three questions and the factors that would have to be considered to answer them correctly. It should be noted that in two questions, the facts contained in the scenarios are not sufficient to answer the questions, so in these cases the answer considered "correct" by TIGTA would be "inappropriate." The only "appropriate" response would be that more facts are needed to provide a correct answer. Since these two questions represent approximately 25 percent of the questions asked of telephone assistants, TIGTA's own answers were "inappropriate" about 25 percent of the time.

TIGTA Questions and Scenarios

Question #1: "Can I claim childcare credit for child care costs that are more than what I paid into my dependent care benefits plan?"

TIGTA Scenario: "You file Head of Household and have a 4-year-old daughter. Your earned income was \$26,450 and you paid \$4,500 into a dependent care benefits plan. Box 10 of your W-2 shows \$4,500 paid into a dependent care benefit plan. Your daughter goes to a day care center and childcare expenses were \$5,100. You have the name, address, and Employer Identification Number for the day care center. You provide the main home (an apartment) for your daughter and pay all living expenses. You are filing with a 1040A and 1040A Schedule 2 for Child and Dependent Care Expenses for Form 1040A."

TIGTA Answer: "No, you cannot take the credit. The assistor may walk you through Part III of Schedule 2 Form 1040A or Form 2441 to determine this."

IRS Response and Analysis: The IRS assistor is required to ask a long series of questions to determine if the taxpayer meets the requirements for the credit. First, the assistor must determine whether the caller is a Qualifying Person with the following questions. "Is your child under the age of 13 when the care was provided? Can you claim your child as an exemption? Does your child have a taxpayer identification number?" For the last question, TIGTA did not provide in its scenario adequate information to answer the question.

Second, the assistor must determine if the caller meets the "Keeping Up a Home Test." The taxpayer would be asked: "Did you keep up a home that you live in with your child? Was this the main home for both you and your child? Did your child live with you for the full year?"

Letter Report: Our Experience in Asking the Internal Revenue Service Tax Law Questions on Its Toll-Free System Was Not Satisfactory

5

Third, to meet the Earned Income Test, the assistor would ask, "Did you have earned income, such as wages, salaries, tips, and self-employment income?"

The assistor would then proceed to the fourth set of questions relating to Work-Related Expenses. The caller would be asked: "Did these expenses allow you to work? Do these expenses provide care for your child? Is the main purpose of the expenses the child's well-being and protection?"

Fifth, the assistor must establish filing status. If the taxpayer is married, he or she must file a joint return to take the credit.

Sixth, the assistor must determine whether the caller's employer provides dependent care benefits under a qualified plan. In this regard, the assistor must learn from the taxpayer whether he or she received a Form W-2 showing in box 10 the total amount of dependent care benefits provided during the year under a qualified plan. If the answer was "yes," the taxpayer can exclude these benefits from his or her income.

And finally, the assistor must determine the income exclusion. The taxpayer's exclusion is limited to the smallest of: (a) total amount of benefits received during the year; (b) total amount of expenses incurred during the year; (c) earned income; or (d) \$5,000.

It should be noted here that, in its highly complex scenario, TIGTA failed to take into account the Reduced Dollar Limit. Taxpayers qualifying for the credit must subtract the amount of employer-provided benefits they are excluding from income from the \$2,400 dollar limitation (for one qualifying child) of expenses.

TIGTA Question #2: "My employer sent me a 1099-Misc instead of a W-2. The 1099 shows my wages as non-employee compensation. I was an employee. What do I do?"

TIGTA Scenario: "You are a wallpaper hanger. You work for a homebuilder who has hired you to hang wallpaper in new houses that he has built. You provide your own tools and equipment. The builder tells you when and where to work. He also provides the wallpaper and supplies for hanging the wallpaper. You sometimes take other paper hanging jobs on the side when the homebuilder has no work available for you, but you don't advertise your services. The builder pays you \$10.00 an hour. The builder does not provide health insurance, a pension plan, vacation pay, or sick pay."

TIGTA Answer: "You are being treated as a self-employed worker, also referred to as an independent contractor."

Letter Report: Our Experience in Asking the Internal Revenue Service Tax Law Questions on Its Toll-Free System Was Not Satisfactory

6

"If you believe you are an employee and not an independent contractor you may request a ruling by filing Form SS-8. You must file your income tax return before a determination can be issued."

"To file as a non-employee, you have to report your non-employee compensation on Form 1040, Schedule C, or Form 1040, Schedule C-EZ. You also need to complete Form 1040, Schedule SE, and pay self-employment tax on your net earnings from self employment of \$400 or more."

IRS Response and Analysis

The TIGTA recommended answer does not address the facts presented in the fact scenario, in which the questioner is citing various factors related to whether he is an employee or an independent contractor. Therefore, the recommended answer fails to address the question presented by the questioner in the fact scenario as well as the general question. In the question itself, the questioner states that he believes he is an employee and should have received a W-2. The fact scenario then goes on to present the substantive question of whether the employee is, or is not, an employee, not merely the procedural question of how to obtain a ruling through an SS-8.

Whether a worker is an employee or an independent contractor is a question of fact. In deciding this status, the courts have said that the relevant facts fall into three main categories: behavioral control, financial control, and relationship of the parties. In each case it is very important to consider all the categories – no single one provides the answer. Relevant evidence in all three categories must be weighed to determine the worker's status.

The behavioral control involves ascertaining the right to direct and control the worker. The assistor must take the caller through the following series of questions. Does the worker receive extensive instructions on how work is to be done? Instructions can cover a wide range of topics, such as: (a) how, when, or where to do the work; (b) what tools or equipment to use; (c) what assistants to hire to help with the work; and (d) where to purchase supplies and services. Just as important, the assistor must learn from the taxpayer whether the business provides the worker with training about procedures and methods. This indicates the business wants the work done in a certain way.

The second group of facts the assistor must establish involves financial control. First, the assistor must determine whether the worker has a significant investment in the work. Second, it must be ascertained whether the worker was reimbursed for some or all business expenses. Third, the caller must be asked about method of payment. Was the worker paid on an hourly, daily, weekly, or monthly basis, or was it a flat fee? And fourth, the assistor must find out whether the worker could realize a profit or incur a loss.

Letter Report: Our Experience in Asking the Internal Revenue Service Tax Law Questions on Its Toll-Free System Was Not Satisfactory

The assistor must finally determine the relationship of the two parties. Did the worker receive benefits, such as insurance, pension, or paid leave? Is there a written contract to show what the worker and the business intended? A written contract may prove to be highly significant if it is difficult, if not impossible, to determine status based on other facts.

After careful review of the TIGTA scenario, we found that additional facts are needed to make an accurate determination of status. For example, how often does the wallpaper hanger work for the homebuilder? While the wallpaper hanger does not advertise, does he or she hold themselves out as an independent contractor in other ways, such as putting up a business card on the bulletin board of a wallpaper store? How much money is required for the tools and equipment that the homebuilder provides? Which party has the financial control over the business? Can the wallpaper hanger turn down jobs? For how many other builders does the wallpaper hanger work?

Indeed, the entire intent of this question is unclear. The question itself and the TIGTA recommended answer imply that the questioner merely seeks procedural guidance, while the fact scenario deals with the substantive question of whether the questioner is an employee or independent contractor. There is not enough information in the fact scenario to answer the substantive question correctly, but there is sufficient information to make it seem to any reasonable person that this is the real topic on the questioner's mind.

TIGTA Question #3: "Can I deduct the tuition that I paid for my child's school?"

TIGTA Scenario: "You and your spouse sent your blind child to a special school for the blind in 2000. This was the first year of school for your child. This special school cost you \$12,000. Your adjusted gross income for 2000 was \$67,534."

TIGTA Answer: "You can deduct the tuition you paid for your child to attend a special school for the blind. This deduction can be taken on the Schedule A as a Medical and Dental Expense. The amount you will be able to deduct is that amount that exceeds 7.5 percent of your Adjusted Gross Income."

IRS Response and Analysis: In this case as well, the IRS assistor must take the caller through a rigorous set of questions to determine eligibility for the deduction. First, is this a special school for a mentally or physically disabled person? Second, what costs are included in the tuition? Third, what is the main reason for using this school? Costs of teaching Braille to a visually impaired child are deductible. However, there is one omission. The TIGTA scenario fails to take into account that the taxpayer can deduct the costs of meals, lodging and ordinary education supplied by a special school if the main reason for being there is the resources the school has for relieving the physical disability.

Letter Report: Our Experience in Asking the Internal Revenue Service Tax Law Questions on Its Toll-Free System Was Not Satisfactory

8

Fourth, can the taxpayer establish dependency in three separate areas: residency, citizenship, and support. The assistor will ask the following questions. Is the son your dependent? Did your son live with you for the entire year as a member of your household or is he related to you? Is your son a U.S. citizen or resident, or a resident of Canada or Mexico for some part of the calendar year in which your tax year began? Did you provide over half of your son's total support for the calendar year?

Fifth, is the taxpayer able to itemize deductions? If so, he or she could claim a medical expense on Schedule A. However, we must inform eligible taxpayers that they are only able to deduct the amount that exceeds 7.5 percent of Adjusted Gross Income.

After looking at these questions and scenarios, I believe it is evident they are by no means representative of the actual questions our assistors receive from real taxpayers. Some of them would seriously challenge the knowledge and skills of a professional tax practitioner and some of the fact scenarios are either ambiguous or incomplete.

TIGTA Recommendation and IRS Initiatives to Improve Accessibility and Quality of Telephone Service

TIGTA's recommendation in this audit focused on increased use of the probe and response guides. Our assistors receive training on how to use the guide, including when and where to research background information. Both the paper and electronic versions contain appropriate references for publications for the specific tax topic. The electronic version does contain links to appropriate publications. As the title states, this is a guide, and it is virtually impossible in any document to provide a specific set of probing questions based on a specific taxpayer situation. The guide is intended to provide our assistors with key points to ensure they have asked the taxpayer sufficient questions on the tax topic to understand the taxpayer's situation and to provide a quality response.

We do, however, recognize the need to improve all of our tools and materials for our assistors. The Probe and Response Guide is one of many already targeted for improvement. We are convening a group to recommend and implement changes to the guide to improve technical accuracy and usability, and we will include TIGTA's recommendation in this effort.

Improving the Guide, however, is a very small part of the comprehensive program we are implementing to address the fundamental changes needed to provide high quality efficient telephone service to taxpayers for both tax law inquiries and account matters.

It is important to understand the magnitude and complexity of this task. The IRS receives 87 million telephone calls on its principal toll-free lines, covering a very wide range of subject matter. Two factors make it especially challenging to provide this service in a high quality way. First is the highly peaked and seasonal nature of

Letter Report: Our Experience in Asking the Internal Revenue Service Tax Law Questions on Its Toll-Free System Was Not Satisfactory

9

telephone service that requires answering just as many calls during the filing season as for the rest of the year. Second is the wide and complex range and changing scope of the subject matter. For example, between January and April tax law calls, which as noted in this letter can be extremely complex, make up 52 percent of the calls, while for the rest of the year tax law calls comprise only 29 percent.

In order to provide high quality service, a major and comprehensive set of changes to the whole telephone program must be designed and implemented. The basic thrust of this program is to organize the 8,000 assistors (rising to 13,000 during the filing season) into units that can be specialized by a reasonable range of subject matter and to use technology to direct calls to the right groups. However, we must overcome many challenges. We must handle a workload that varies extremely by day of the week, hour of the day, and month of the year, and schedule it down to half-hour increments. Therefore, designing this overall system and making the transition to it is a major task that will take several years and require many evaluations and adjustments along the way.

This program is far too large to describe in detail in this response, but the following is a summary of the key elements of the program underway concerning toll-free service.

Customer Contact Center Optimization (CCCO) Project

Through the CCCO Project, IRS is working to improve our tax law telephone service. For example, we are driving down into the organization the modernization concept of organizing by different customer needs. We are now specializing work by sites and by Customer Service Representatives (CSRs) to deliver better quality on tax law questions.

The specialization began this year with Small Business/Self Employed (SB/SE) and Wage and Investment (W&I) tax law topics. It will continue in 2002 and 2003 with the specialization of specific sites, CSRs, and workload into six skill-based "telephone cells":

- (1) Individual Master File (IMF) Basic Accounts (IMF Balance Due) and IMF Basic Tax Law (Filing Status and Dependents, Child Care and Standard Deductions, Earned Income Tax Credit, and Interest and Dividends)
- (2) Business Master File (BMF) -- Basic Tax Law and Accounts (Forms 94x Tax Law, Forms 94x Accounts) and BMF Basic
- (3) IMF Advanced Accounts (includes refunds and EITC account problems)
- (4) W&I Advanced Tax Law (Pension/IRA, Schedule D/Sale of Home, Miscellaneous Tech Backup, Advanced Tech W&I)
- (5) SB/SE Advanced Tax Law (Estimated Taxes, Small Business, SB/SE Miscellaneous Tech Backup, SB/SE Advanced Tech)

Letter Report: Our Experience in Asking the Internal Revenue Service Tax Law Questions on Its Toll-Free System Was Not Satisfactory

10

(6) BMF Advanced Tax Law and Accounts (more complicated issues for 94x and advanced others)

Given that different cells have different demand peaks, we will have to redistribute resources across them to better meet demand. We must also develop and deliver training to equip the CSRs with specialized areas of expertise.

To determine skill gaps and develop training plans for planned workload migration, we will conduct a "skills assessment" of the current Toll-free/Adjustments workforce. We are now planning training to improve delivery methods and to strengthen the internal instructor cadre. Courses were designed for each application within the telephone cells to adequately train the CSRs.

Scheduling, Planning and Resources

The IRS is also paying strict attention to staffing, scheduling and planning. We will continue to add additional CSRs based on budget allocations. Just as important, we are adding more permanent positions versus the seasonal hires upon which the IRS traditionally depended. This will help ensure a well-trained staff with less turnover.

In addition, we are improving our scheduling and planning processes to be more precise in determining taxpayer requirements for service. We have developed several tools/models which will help us refine these processes. We want to provide the right employees with the right skills at the right times for the demand. This approach not only provides the best service to taxpayers, but also helps the IRS to make the best use of its limited resources. These efficiencies are key to our strategic goal of "productivity through a quality work environment."

Deployment of Balanced Measures

We have developed and will use new and improved measures to track our progress in 2002. Telephone level of service will increase to 71.1 percent. The IRS will continue to implement process and system enhancements to improve both convenience and quality of telephone communications. This includes taking steps to better align telephone operation measures with IRS strategic direction to enable benchmarking against industry standards. We will baseline new measures we tested last year.

We will maintain the current measurement concurrent with this new effort to allow the IRS to solicit external expertise to validate and assess the new measures and develop an implementation plan. The focus will now shift to institutionalize these new measures. The new measures are consistent with the IRS strategic direction to increase the complexity of calls answered by CSRs through more sophisticated call routing, expansion of alternative language services, and increased specialization of issues addressed by assistants.

Letter Report: Our Experience in Asking the Internal Revenue Service Tax Law Questions on Its Toll-Free System Was Not Satisfactory

11

Quality Review

We are also reengineering the quality review process for telephone operations. We chartered the Embedded Quality initiative in January 2001 to address the issue of customer service quality in W&I and SB/SE toll-free, paper, ACS, and walk-in operations. The three-phased approach focuses on identifying and deploying appropriate measures and processes to reflect a true picture of quality performance. It will lead to front-line accountability and an emphasis on longer-term strategic improvements.

The first phase of the Embedded Quality effort centers on evaluating and improving the current quality measures for: Voice of the Customer, Business and Employee; Measurement Effectiveness; Tie to Human Performance; and Measurement Method. The second phase focuses on connecting accountability for performance to the front-line employee.

As a result of the improved measures and heightened accountability tested during the pilot, which will be conducted during the fourth quarter of 2001, the third phase will further pursue improvement processes linked to the Business Performance Review System, a more efficient quality review structure, and improved warehousing and availability of data.

New Technology

To increase productivity and quality of service, we must give our employees the technology and tools they need to do their jobs at a high level. In this regard, our Business Systems Modernization (BSM) Program is delivering both short- and long-term improvements.

The Customer Communications Project is the first deployment of a business capability under the BSM effort. It is now in final testing before deployment in the third fiscal quarter. This project is the first step toward achieving the objective of planning and managing the vital CS telephone enterprise activity so that taxpayers get prompt and reliable access to the information they need.

The IRS will greatly improve the efficiency and effectiveness of IRS' Automated Call Distributors (ACDs) and provide customer service levels on a par with the private sector. We will make hardware and software improvements to the telephone system used to receive, route and answer more than 150 million taxpayer telephone calls each year. Later, we will add Internet access capabilities. This project will deliver direct benefits by increasing the number of calls that can be answered with available staff and will be a critical foundation element for subsequent projects, since virtually all major systems require communication with taxpayers.

We implemented Network Prompting for 2001 and will refine it for 2002 to ensure automated services are routed correctly so CSRs can handle calls where automation

Letter Report: Our Experience in Asking the Internal Revenue Service Tax Law Questions on Its Toll-Free System Was Not Satisfactory

12

services are not available. Voice Recognition will allow taxpayers who call from a rotary telephone or who have difficulty navigating our menu options to respond by voice to prompts which will direct them to automated services or CSRs who are best able to handle their inquiry.

In addition, the Customer Communications Data Directed Routing (DDR) project will provide the capability to route select taxpayers calling on five toll-free lines to the appropriate Customer Service Representative or Automated Self-Service Application (ASSA). We will accomplish this by using a Taxpayer Identification Number (TIN) entered by the taxpayer to access the taxpayer's account. (DDR applies more to accounts rather than tax law since it actually checks the status of a taxpayer's account and routes that person to an assistor who can best help on the identified tax problem.)

DDR will provide for enhanced intelligent routing of calls for the following IRS toll-free 800 numbers:

- 800-829-1040 (Tax Law/Procedures/Refund)
- 800-829-8815 (Notice/Letter/Bill)
- 800-829-7650 (ACS W&I)
- 800-829-3903 (ACS SB/SE, Large and Mid-Size Business, Tax Exempt and Government Entities)
- 800-808-4262 (EITC & Refunds)

In the interim, we will route taxpayers who call these five toll-free numbers, and who have account conditions targeted for routing to a CSR, to a predetermined "Aspect Application," e.g., the specific topics the assistor will answer, such as refunds or filing and dependents.

In the longer term, we will redefine Aspect Applications to allow more precise routing (e.g. skills-based routing for IMF Advanced Account questions and ACS calls). Data Store will compile data elements from additional sources to also enable more defined routing (e.g. ACS database, Corporate Files On Line database). In the future, CSRs will receive screen pop-up data relevant to the caller's TIN to enable faster response to calls. Also envisioned are the receipt and TIN-based routing of taxpayer communications arriving through channels other than telephone.

Better Data and Tools

Two BSM projects will be particularly useful to assistors trying to help taxpayers on account calls and account resolution. The first, the Customer Account Data Engine (CADE), is the cornerstone of the data infrastructure. It is designed to provide a modern system for storing, managing, and accessing records of taxpayer accounts. CADE will create applications for daily posting, settlement, maintenance, refunds processing, and issue detection for taxpayer accounts and return data. The database and applications developed by CADE will also enable the development of subsequent modernized systems.

Letter Report: Our Experience in Asking the Internal Revenue Service Tax Law Questions on Its Toll-Free System Was Not Satisfactory

13

CADE is scheduled to be released in stages, beginning first with simple tax returns being moved into the new CADE system, followed by increasingly complex taxpayer returns. As we move more taxpayer account information into the new CADE system through these staggered releases, other modernized applications will be put in place to provide the interfaces necessary for IRS employees and affected taxpayers to access and carry out transactions. We expect to complete system development, testing and initial deployment of some returns during 2002.

The second project is Customer Account Management (Individual Assistance and Self-Assistance Operating Models). In today's environment, taxpayers are often unable to receive timely and accurate responses to requests and inquiries. These operating models will provide improved technology and business processes that will enable the IRS to: better manage customer service functions; maintain and utilize customer data to improve taxpayer interactions with the IRS; provide comprehensive account and tax law assistance to taxpayers and practitioners; and manage the case work flow of customer inquiries.

Current Employee Tools

We are continuing to improve our tools for CSRs. One of the best currently available to IRS employees is the Servicewide Electronic Research Project (SERP). It is an on-line delivery system of information to CSRs that contains easy-to-locate information for CSRs and other employees. The following are some of the resources available through SERP:

- **Probe & Response Guide:** We have automated the Probe and Response Guide for tax law and added an improved search-by-word system. As previously noted, we will revise the Guide for 2002 with expected additional improvements.
- **Accounts Resolution Guide** provides CSRs a guide to resolve account inquiries accurately and consistently. It is limited to the most frequent notice and refund inquiries (e.g., 8815, 4262 toll-free calls). The actions described within the guide are the same as the Internal Revenue Manual procedures; however, we have condensed them for user-friendly access.
- **Internal Revenue Manual (IRM) Supplements:** CSRs can link to sites such as the Accounts Resolution Guide, Document 6209, and IRM-related research items.
- **W&I or SB/SE Buttons:** Employees can click on and see the 10 most common jobs associated with a taxpayer inquiry for that application. The CSR then clicks on the job that is related to the call and will receive the 10 most frequently-used references.

Letter Report: Our Experience in Asking the Internal Revenue Service Tax Law Questions on Its Toll-Free System Was Not Satisfactory

14

- NEWSFlash: CSRs logging on to SERP will see up-to-the-minute alerts. For example, on May 29, 2001, information was posted on the House- and Senate-passed Tax Relief Act of 2001 with particular attention to possible taxpayer questions on the "tax rebate."
- Who/Where: CSRs can link to sites used to locate people and addresses, such as the Post of Duty List, Service Center Lockbox Addresses, and Automated Collection System Levy Sources.
- Forms/Letters/Pubs: Employees can link to the sites for Forms, Publications, and Centralized Inventory Distribution Center.
- Local/Sites/Other: Employees will find links to sites such as Electronic Tax Administration, *Tax Notes*, Lexis*Nexis, and Taxpayer Advocate.
- Learning: This is where employees will find information on various training opportunities, including Computer-Based Training and Refresher Training.

Lessons Learned and Conclusion

TIGTA's audit to determine and measure correct telephone response to tax law questions demonstrates the inherent problems in using a flawed methodology that relies on limited samples and hypothetical questions. By its very nature, making up a limited set of test questions and scenarios cannot be representative of what taxpayers actually ask our telephone assistants. We must design and manage our service to provide accurate answers to the questions the majority of taxpayers actually ask. We do not and cannot design the service to answer any possible question that could be asked.

One of our key challenges is to determine how to focus our systems and training on the proper scope and mix of subject matter. We must do this so we can provide accurate answers to questions within this scope, while having a proper protocol to handle calls that fall outside of it. The TIGTA methodology of using hypothetical test questions cannot assist us in this goal because it does not test how well we are doing what we set out to do. In addition, it does not accurately reflect what the public actually receives in the way of correct answers to their questions.

As I noted in this response and in Congressional testimony over the past three years, we are committed to improving both taxpayer access to our toll-free lines and accuracy of the responses we give to tax law and account questions. We are eager to work with the Congress, the GAO, TIGTA, and all interested parties to improve the level of service.

I believe TIGTA wants to perform audits that will assist the IRS in improving performance. It does hundreds of such audits each year. They point out problems and identify useful ways we can improve the entire spectrum of taxpayer services. Since telephone service is a very important program, it is my sincere desire that we work

**Letter Report: Our Experience in Asking the Internal Revenue Service Tax Law
Questions on Its Toll-Free System Was Not Satisfactory**

15

together so the methodology used to audit this service will accurately reflect the problems we confront and assist in improving it.

I further believe the obvious way to accomplish this goal is for TIGTA to audit our method of measuring quality and accuracy of actual taxpayer calls and point out improvements in the method. We would be most receptive to assistance in this area and believe it could help us to improve performance and provide better service to America's taxpayers.